

Fed Pers

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10 September 1987

MEMORANDUM FOR THE RECORD

SUBJECT: Conversations with Staffers Regarding the Status of
Legislation to Repeal the Lump Sum Benefit Tax

1. Under the Tax Reform Act, Agency employees retiring under either Civil Service or CIARDs can elect to receive a lump sum payment for their actual contributions to either retirement system with a concomitant reduction in annuitant payments. However, under current law, those who opt for a lump sum are subject to an 8% to 12% tax.

2. According to an article in the Federal Times, Senator Matsunaga (D., HI) intends to introduce legislation which would remove the 8% to 12% tax. A conversation with Randy Hardock, Tax Counsel to the Senate Finance Committee, indicates that Senator Matsunaga will indeed seek such relief but that there is not much support for the elimination of the tax because of the lost revenue implications. However, Hardock believes Senator Matsunaga can gain support for legislation which would permit retirees to role over their contributions into an IRA or the Thrift Plan. Hardock has no idea as to when Senator Matsunaga will move.

3. On the House side, there is little enthusiasm for tax relief on lump sum payments. Representative Rostenkowski, Chairman of the House Ways and Means Committee, according to staffers is reluctant to raise the issue at all. There is "just too much pain associated with the issue." Sources on the Post Office and Civil Service Committee report that Representative Ford, Chairman of this Committee, does not support lump sum tax relief at all.

4. With the Administration trying to eliminate the lump sum benefit entirely (as contained in the Administration budget proposal) and the House Ways and Means not wanting to raise the issue, it leaves the Senate with any possible action. While there does not appear to be much enthusiasm here for removing the 8% to 12% tax, there may be a move to allow retirees to role over into an IRA or the Thrift Plan.

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